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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 000025

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EUR FOR DAS BRYZA

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SUBJECT: EUR DAS BRYZA'S ENERGY SECURITY MEETING WITH  
BULGARIAN REGIONAL DEVELOPMENT MINISTER GAGAUZOV

REF: 07 SOFIA 1339

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d)

1. (C) SUMMARY: DAS Matt Bryza and Ambassador Beyrle met with Bulgarian Regional Development Minister Asen Gagauzov on December 6, 2007, to discuss energy security issues, including diversity of supply, economic viability of the Nabucco Project, and strengthening Bulgaria's negotiating position with Gazprom. Minister Gagauzov updated DAS Bryza on Bulgaria's progress on energy projects since their meeting last year (2006). He said that the EU does not have a unified position on energy, especially when dealing with Gazprom. DAS Bryza told Gagauzov that Nabucco is a viable project, especially since recent data shows that Azerbaijan has enough gas to supply both the Nabucco and the Turkey-Greece-Italy pipelines. Both Bryza and the Ambassador urged the Bulgarians to retain experienced legal counsel to be in the strongest negotiating position with Gazprom. Gagauzov agreed to explore hiring an international oil and gas pipeline lawyer, noting that shortsightedly saving money on a lawyer now could cost the Bulgarians billions later. (NOTE: The Bulgarians retained the U.S. law firm Paul Hastings to advise on South Stream in late December 2007.)  
END SUMMARY

BULGARIA: ASPIRING TO BECOME AN ENERGY HUB

2. (C) BURGAS-ALEXANDROPOLOUS: Gagauzov said the joint protocol signed by Bulgaria, Greece, and Russia on the Burgas-Alexandropolous pipeline (BAP) November 15, 2007 establishes an international project company (IPC) registered in the Netherlands and lays out a tiered decision making structure on key issues. The protocol protects the rights of the minority shareholders (Bulgaria and Greece each with 24.5 percent), giving them veto power on subsequent matters. Bulgaria's benefits from the deal include the creation of 1,000 jobs and royalties from the oil transit fees on the capacity of 35 - 50 million tons (according to press reports Bulgaria stands to receive USD 300 million in annual transit fees). Gagauzov stressed BAP's importance for placing Bulgaria on Europe's and the EU's energy map and for Bulgaria politically and economically.

3. (C) AMBO: Gagauzov said on November 22 the Deputy Ministers from the Bulgarian and Macedonian ministries responsible for AMBO signed a bilateral border crossing protocol. Sometime next year there will be a meeting of

investors from Albania, Macedonia and Bulgaria in Washington to discuss AMBO. AMBO will include seven point installations/terminals, five to six reservoirs, and one pumping station. Gagauzov alluded without detail that some more environmental issues remain open and that a more elaborate environmental assessment will be paid for by an investor.

14. (C) BELENE: Gagauzov hoped that by the end of the year a strategic investor in Belene will be chosen: the entire project will create 6,000 jobs. He stated that all these energy projects will make Bulgaria an energy hub, drawing substantial financial benefits to Bulgaria, making it a strategic member of NATO and the EU.

NABUCCO: IT CAN BECOME A REALITY

15. (C) Gagauzov briefly talked about Nabucco, calling it one of the EU's four priority energy projects. Gagauzov admitted that the GOB has been preoccupied with the Gazprom-backed South Stream project, noting that Bulgarian Minister of Economy and Energy Petar Dimitrov signed a joint-declaration in Moscow with Russian Energy Minister Viktor Khristenko on November 8. He also said that a northern route for the pipeline looks more viable than going through Croatia and Slovenia to Italy.

16. (C) DAS Bryza told Minister Gagauzov that recent results of gas Exploration in Azerbaijan indicated Azerbaijan's reserves could be sufficient to fill the Turkey/Greece/Italy pipeline and several, if not all, phases of Nabucco. That said, the United States would still work with Turkmenistan and Iraq in pursuit of additional sources of supply for

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Nabucco. During a recent meeting in Washington, Bryza said he asked Gazprom's Deputy CEO Aleksander Medvedev if Gazprom would have enough gas to meet all its supply commitments to Europe, including new projects such as South Stream, citing the International Energy Association (IEA) reports that Gazprom will not have the capacity to meet Europe's energy needs by 2012. Medvedev cavalierly replied that there is enough gas (not elaborating on its source) and that IEA is wrong. DAS Bryza told Gagauzov he was not there to tell Bulgaria to say no to Gazprom, but to help its NATO ally, Bulgaria, stake out the strongest negotiating position with Gazprom by developing alternative sources of gas supply.

17. (C) Gagauzov replied that Nabucco will gain support from the EU, but any delay in Nabucco's construction will not be good. We must overcome doubts about Nabucco by demonstrating the availability of gas supplies in Azerbaijan, he said.

GAZPROM'S TACTICS

18. (C) DAS Bryza congratulated the GOB on working to become a regional energy hub, which is a positive development for NATO. DAS Bryza said that he was not there to talk negatively about Russia. He highlighted three U.S. interests: 1) getting more gas to Europe; 2) getting more Caspian oil and gas to the international market via AMBO/BAP/Nabucco; 3) making sure our NATO allies Bulgaria, Romania, Greece, are in the strongest position to negotiate with Gazprom. The United States would like to see Gazprom behave like a market-based company. By law, Gazprom is a monopoly, and therefore seeks to stifle competition by acquiring as much strategic energy infrastructure as it can in Europe, rather than investing sufficiently in upstream production to sustain its reliability as a gas supplier. DAS Bryza told Gagauzov that Gazprom also seeks to divert attention from Nabucco by proposing commercially dubious but grandiose projects, such as South Stream. As the race a decade ago between Blue Stream and the Trans-Caspian Pipeline had shown, a commercially questionable project supported by the Russian Government can delay a viable one by a decade. The Government of Hungary had changed its position on Nabucco

within the last year, Bryza noted, and is now a strong supporter of the project.

¶9. (C) Gagauzov said the EU does not have a unified position on energy in negotiating with Gazprom. He claimed Bulgaria stood up for itself in the November 8 meeting in Moscow and insisted if there is new, additional pipeline construction on the South Stream project on Bulgarian territory that at least 50 percent would be controlled by Bulgaria. Gagauzov said that as a NATO and EU member, Bulgaria has specific requirements and will keep them, noting if there are new pipelines going through Bulgaria it is better for the Bulgarians to control them. The EU needs a unified position on South Stream, Nabucco, and even Belene when dealing with Russia, otherwise there will be complications when dealing with many different EU members. Gagauzov said in a joint EU-Russia project, Russian companies' participation cannot be larger than EU company participation.

¶10. (C) DAS Bryza explained that South Stream's commercial viability is dubious, given the estimated costs of producing and delivering new gas through that route versus Azerbaijani and Turkmenistani gas via the Southern Corridor. Gagauzov was very interested in the information and asked to keep the maps Bryza provided, and to receive the OME study on the cost of new gas for delivery to the EU-15.

BULGARIA, YOU NEED A GOOD LAWYER

¶11. (C) Ambassador Beyrle told Gagauzov that the GOB needs a good attorney before its final negotiations with Gazprom. He had told Minister Dimitrov, during their meeting December 4, that Bulgaria should seek appropriate legal counsel before signing the deal with Gazprom during Putin's January visit. Dimitrov told the Ambassador that there would not be any funding for a lawyer until after the contract signing; Beyrle pushed back saying it would be too late then. Beyrle said that negotiating with Gazprom is like a chess tournament; the GOB needs a grand-master champion level team to compete. Gagauzov agreed that an international gas and oil lawyer

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would be a good idea, and said that he will discuss the idea with both Dimitrov and with Foreign Minister Kalfin. He also agreed that Bulgaria needs a strong negotiation position with Gazprom, but Bulgaria was not necessarily in a weak negotiation position now. He added that Bulgaria should not give more to Gazprom than needed. Saving money on a lawyer now could cost the GOB billions later, the Minister concluded. He denied there is strong pressure from Russia regarding the negotiations. (NOTE: The Bulgarians retained the U.S. law firm Paul Hastings to advise on South Stream in late December 2007.)

¶12. (C) COMMENT: Gagauzov's update on energy projects highlighted Bulgaria's eagerness to position itself as a future energy hub. He seemed receptive to DAS Bryza's message that the United States was not telling the Bulgarians to say "no" to Gazprom/Russia, but to make sure they were in the best possible position to negotiate. Bryza's updated information on Azeri gas supplies and the cheaper cost of shipping Azeri gas through pipelines west compared to shipping gas from Siberia clearly intrigued Gagauzov. Despite the pressure on Bulgaria to produce deliverables for the January 2008 Putin visit, our message to get a good lawyer is getting a favorable reception.

¶13. (U) EUR DAS Bryza has cleared this cable.  
Karagiannis